Alberta Securities Commission

Annual Report

for the year ending March 1980

Alberta
CONSUMER AND CORPORATE AFFAIRS
Securities Commission

Alberta
CONSUMER AND
CORPORATE AFFAIRS

Office of the Minister

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91-04601/

The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the Annual Report prepared by the Chairman of the Alberta Securities Commission for the year ending March 31, 1989.

Respectfully submitted,

Dennis Anderson
Minister of Consumer and Corporate Affairs

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Office of the Chairman

The Honourable Dennis Anderson
Minister of Consumer and Corporate Affairs

Sir:

I have the honour to submit the Annual Report of the Alberta Securities Commission for the year ending March 31, 1989.

Respectfully submitted,

R. J. Will
Chairman
Alberta Securities Commission

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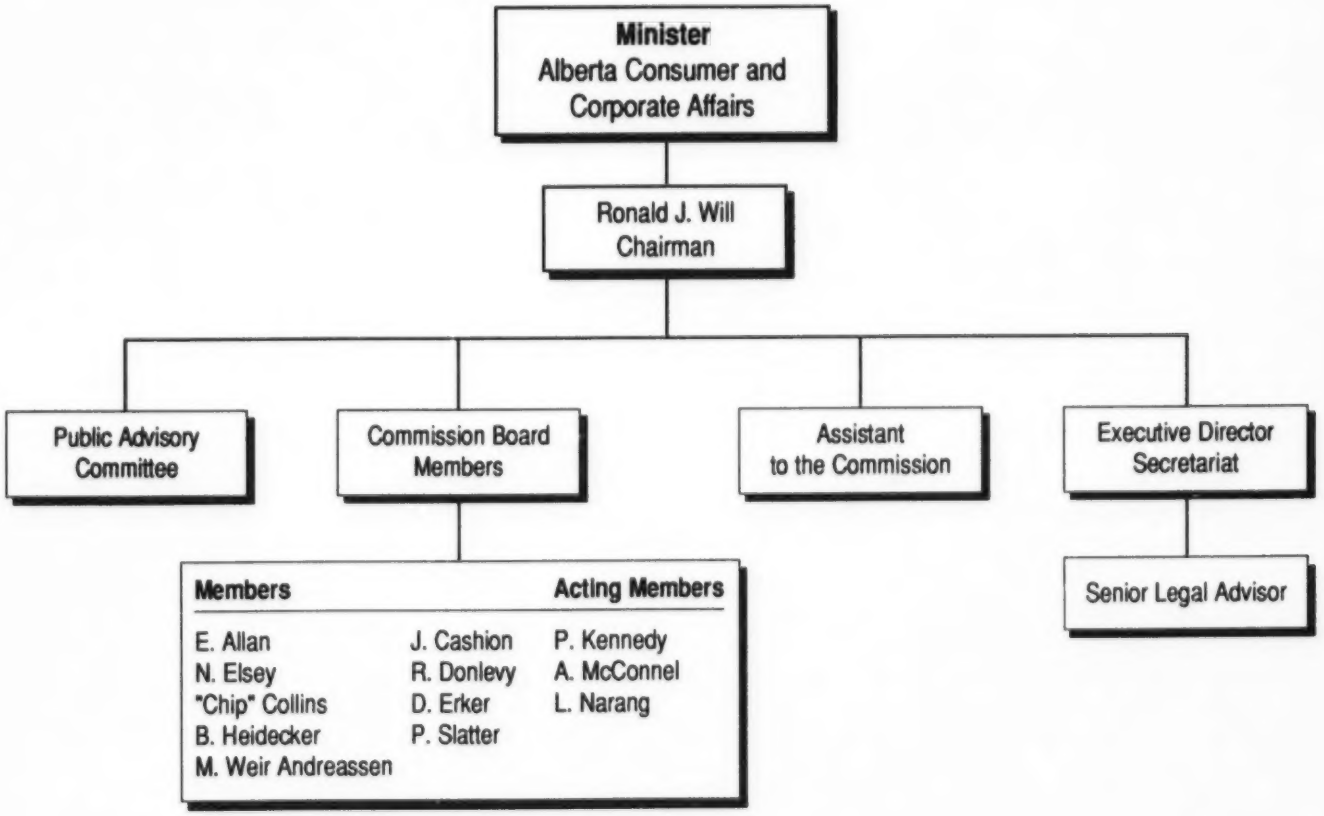
Organization Chart
Alberta Securities Commission Board



Message of the Chairman of the Board

I was appointed in April of 1988 as the fifth Chairman in the Commission's 32-year history. The 1988-89 year was one of tremendous transition for the Alberta Securities Commission. It was a year of internal reorganization as the Board was separated from the Agency of the Commission. The Commission was reorganized to clearly define the Agency's functions of investigation and registration from the quasi-judicial hearing role of the Board. The Commission also moved and built new offices and hearing rooms in Calgary and Edmonton, and expanded its complement of staff members to better serve the public of Alberta.

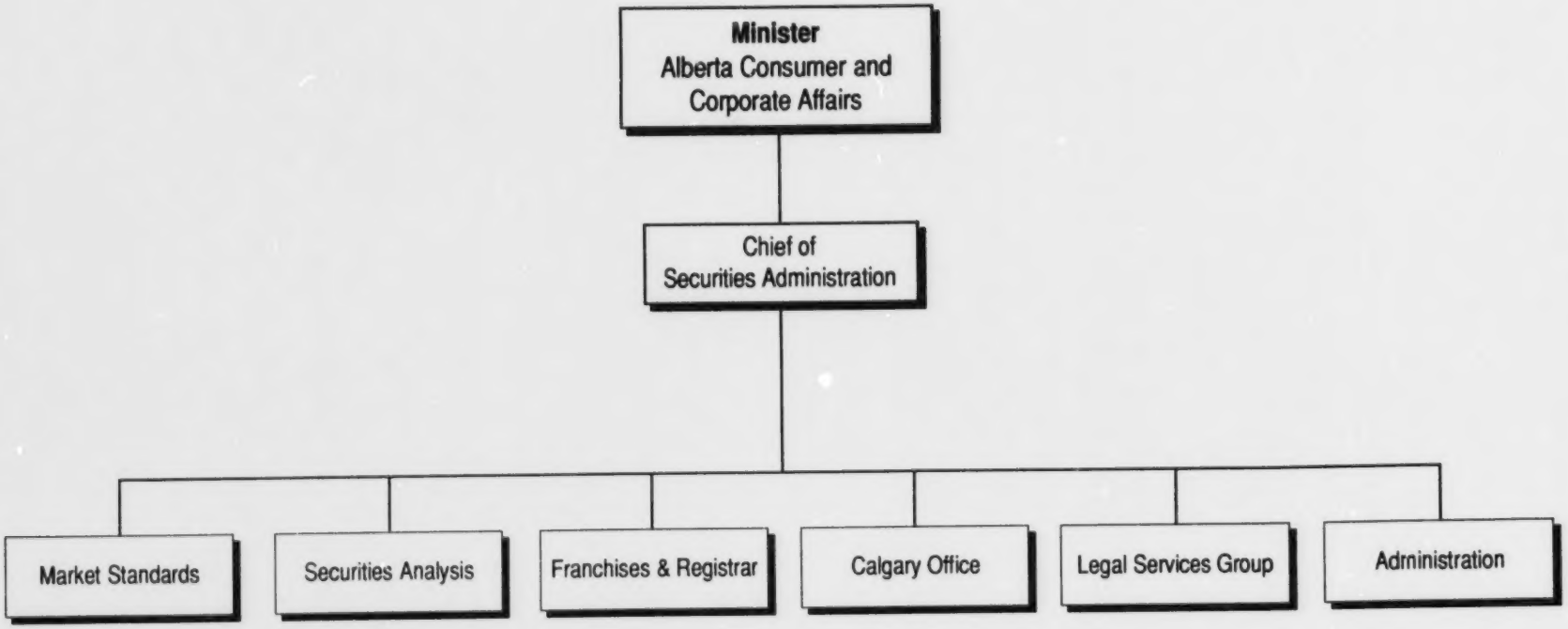
Many challenges were faced by the Commission during the year. The Commission was actively involved with other provincial securities commissions across Canada to establish uniform principles of regulation. These principles of regulation were established to provide guidelines for mutual funds sales and full service and discount brokerage firms. These were services that will be offered through related financial institutions such as banks, trust companies, credit unions and treasury branches. The Commission supports the view that investors in Alberta and across Canada should receive the benefit of full disclosure as to ownership and the relationship between corporations before making investment decisions. The Commission, through the Board, was also given the mandate of establishing new criteria for educating the public of Alberta about investing. This program has been discussed with Alberta Education and will be implemented over a period of three to five years.

The Board and its Executive Director have worked on amending the Securities Act. In particular, amendments to the "insider trading" provisions of the Securities Act pertaining to the special relationships of persons and companies were implemented. Increased penalties for offences under this Act have been proposed. The purpose of these amendments is to provide a greater deterrence for illegal insider trading and fairness for all participants in the securities markets.

The staff of the Commission are committed to providing the best possible service to the citizens of Alberta. I thank them for their accomplishments throughout the year.

Chairman of the Board

Organization Chart
Alberta Securities Commission Agency



Message of the Chief of Securities Administration

The 1988/89 fiscal year was a year of change for the Agency. Along with the reorganization, the Agency increased its staff size from 53 to 58 people, and its budget from $3.2 million to $4.0 million.

The Agency strengthened its financial analysis, enforcement and legal functions in Calgary by providing additional financial analysts and investigative personnel. It also moved its Calgary offices from the J.J. Bowlen Building to a larger facility in the Alberta Stock Exchange Tower. As a result of the Commission raising its profile in Calgary and southern Alberta, people of these communities will have greater access to the Commission's services.

The Agency also made some internal changes. The most significant was the combining of the Franchises and Registration sections into one branch and separating the administrative unit into a separate section. The purpose of the change was to enhance the operational effectiveness of these sections.

The Agency has operated more effectively with the two locations and improved communication within the organization. It has also improved the training of new staff and the maintenance of records through computerization of the records system.

There has also been an increase in activities in many areas of the Agency's responsibilities. The number of enforcement matters has increased as has the number of requests for transfers and releases of escrowed shares and for applications by individuals to be registered as dealers or advisers. The volume of records being filed with the Agency continues to grow.

The only area that declined during the past year was the filing of prospectuses and other offering documents. This was attributable to a decrease in the number of Junior Capital Pools being formed and to the after-effects of the October, 1987 stock market decline.

The Agency has worked to develop and adjust to its changed relationship with the Board. It continues to work closely with the Board and its Executive Director to develop and revise policies and legislation. The Agency has also worked to further its relationships with the Alberta Stock Exchange (ASE), the Investment Dealers' Association (IDA) and other securities commissions throughout the

country. These latter efforts were primarily channelled through subcommittee work with the Canadian Securities Administrators and by networking in the enforcement area.

The Agency appreciates the support of the Minister and Deputy Minister of Alberta Consumer and Corporate Affairs and of the other staff of the department through this year of adjustment and change.

The dedication and work of the Agency staff is very much appreciated. Through their efforts, the Agency will continue to enhance its role as the administrative and policing arm of the Commission.

Chief of Securities Administration

The Mandate, Powers And Structure Of The Alberta Securities Commission

Mandate

The mandate of the Commission is to assure that the securities industry provides adequate investor safeguards and awareness in developing a fair and efficient capital market in Alberta. In accomplishing its mandate the Commission is responsible for the effective administration of the Securities Act, the Franchises Act, the Deposit Regulations Act and certain provisions of the Alberta Business Corporations Act.

The bulk of the Commission's day-to-day activities centre around the administration and enforcement of the Securities Act and the Franchises Act. These activities primarily involve:

1. *Registration of persons trading in securities and franchises*
   The Commission ensures that registrants are competent and meet standards of integrity. In addition, dealers are required to satisfy minimum capital requirements and maintain adequate supervision of their employees.

2. *Review and clearance of offering documents*
   Generally, no person may sell securities or franchises to the public unless an offering document, for example a prospectus, containing full, true and plain disclosure is filed, cleared by the Agency and provided to the purchaser.

3. *Enforcement of the Securities Act and Franchises Act*
   The Agency investigates complaints made by the public or internal referrals of suspected violations of the legislation and, in appropriate cases, takes administrative proceedings before the Board or recommends prosecution in the courts. The Agency monitors the filing of financial statements, insider trading reports and other continuous disclosure materials required under the Acts to be filed with the Agency.

Powers

The Commission, in fulfilling its mandate, has the power, among other things, to:

1. investigate violations of the legislation for which the Commission is responsible;

2. suspend, cancel or impose terms on registration, or reprimand registrants;

3. grant or deny applications for exemptions from provisions concerning prospectuses, registration, take-over bids or issuer bids;

4. cease trade any security;

5. deny use of exemptions from the prospectus and registration requirements of the Securities Act to individuals or other entities;

6. order funds be frozen or apply for court-appointed receivers;

7. order audits of registrants, reporting issuers, mutual funds custodians and the Alberta Stock Exchange;

8. grant relief from financial reporting requirements;

9. grant relief from security holder meeting requirements;

10. grant relief from proxy solicitation and insider trading requirements;

11. accept an auditor of a reporting issuer; and

12. recognize as self-regulating organizations (SROs), associations or organizations representing registrants, with the delegated authority and responsibility to monitor and regulate their members. The Commission retains the power to review any SROs decision.

Structure

In July of 1988, the Government of Alberta proclaimed the Alberta Securities Commission Reorganization Act which provided that the Commission be composed of two separate and distinct entities:

1) the Board and
2) the Agency

The Board is a quasi-judicial body which sits as an administrative tribunal in hearings and applications, acts as an appeal body from decisions made by the Agency, formulates policy, hears appeals from decisions of the SROs and makes recommendations to the government for changes in legislation.

The Agency is the administrative body responsible for the day-to-day operations primarily centred around the regulation and enforcement of the Securities Act and the Franchises Act.

To provide effective service to Albertans, the Commission has two fully operational offices, one located in Edmonton and one in Calgary. Coincident with the reorganization of the Commission, additional resources were provided to the Calgary office consistent with the Commission's overall objective to provide equal access to Commission services by all Albertans.

The Commission is a member of the Canadian Securities Administrators (CSA), an association of all provincial securities regulators in Canada whose objective is uniformity of securities regulation through the development of national, uniform policies adopted by the commissions. The Commission is an active participant in the CSA, both at the executive level and the sub-committee level. Representatives from the Board and the Agency attended the CSA semi-annual meetings this past fiscal year.

The Board

The Board has as its chief executive officer the Chairman who reports to the Minister of Alberta Consumer and Corporate Affairs.

The Board currently consists of the Chairman, who serves full-time, and nine members and three acting members who serve on a part-time basis. The members, who are appointed by the Lieutenant Governor in Council, are drawn from various fields of the general public and include lawyers, accountants and industry professionals.

The Board, convening in panels, meets weekly, alternating between Edmonton and Calgary. They consider applications for discretionary exemptions from the Securities Act, hear enforcement proceedings under the Securities Act and the Franchises Act and serve as an appeal body, where required. Two members constitute a quorum. In addition, members of the Board meet on a monthly basis to discuss and ratify policy issues and future directives.

A significant policy initiative recently adopted by the Board is to promote consumer education and awareness to enable financial consumers to make informed investment decisions.

The Board has appointed an Executive Director who accepts, on behalf of the Board, documents that are served on or filed with the Board. The Executive Director also provides the record of proceedings before the Board to the Court of Appeal and carries out the duties assigned to him by the Chairman. The Executive Director ensures that all decisions and orders of the Board are issued and published and that all documents and evidence presented to the Board are properly recorded and stored for further reference.

The Chairman has ultimate responsibility for the Board and for providing direction to the Executive Director for the research, development and drafting of recommended legislative changes.

The Agency

The Chief of Securities Administration, as the chief executive officer of the Agency, is responsible for staff and for the activities of the five operating branches of the Agency -- Securities Analysis, Market Standards, Franchises, Registration and Administration as well as the Calgary office and the Legal Services group. The Chief of Securities Administration reports to the Minister of Alberta Consumer and Corporate Affairs.

The Agency consists of 58 accountants, investigators and support staff. Five lawyers are seconded to the Agency from the department of the Alberta Attorney General.

Securities Analysis Branch

The Securities Analysis branch reviews prospectuses and other offering documents to ensure that, when there is to be a distribution of securities to the public, the information provided is full, true and plain and is not contrary to the public interest. The responsibility for providing full, true and plain disclosure rests with the issuer and the underwriter. The acceptance of a prospectus or offering document by the Securities Analysis branch is not meant to suggest that the merits of the investment have been assessed by the Agency, nor does it guarantee the completeness or accuracy of the prospectus or offering document.

The Board has delegated to the Agency certain responsibilities under the Securities Act. The Securities Analysis branch is responsible for the review and determination of applications for exemptions from certain requirements of the Securities Act. As well, the Securities Analysis branch, in conjunction with the Legal Services group, reviews and determines the Agency's position on certain applications for exemptions from the requirements of the Securities Act which are to be heard by the Board.

An important aspect of the work of the Securities Analysis branch is assisting the Executive Director of the Board with major policy development. Several members of the branch have been working with Alberta Treasury on the development of an investment contract policy. Branch staff are also involved, in conjunction with other securities commissions across Canada, with the development of new rules for future orientated financial information.

Securities Analysis staff were provided to the Franchises and Market Standards branches which were facing resource shortages, to assist those branches in the timely completion of their assignments.

The fiscal year ended March 31, 1989 was characterized by a decline in the number of public offerings. The number of prospectus filings declined by 54%. This decline was precipitated by the October 1987 market adjustment and the major decline in filings under the Junior Capital Pool Policy. It is anticipated that prospectus filings will continue to remain at a lower level until the activity in the equity markets returns to a normal level.

Market Standards Branch

The Market Standards branch is responsible for ensuring that all participants in the securities industry comply with the requirements of the Securities Act and Franchises Act. In meeting its responsibility, the Market Standards branch performs a multi-faceted role. It conducts investigations into alleged violations of the Securities Act and Franchises Act, monitors statutory filings, surveys the securities market and undertakes educational and preventive policing programs. As the "enforcement arm" of the Agency, this branch initiates appropriate enforcement actions including administrative proceedings before the Board or prosecutions in the courts.

The number of enforcement proceedings initiated before the Board and before the courts under the Securities Act and the Franchises Act during the 1988/89 fiscal year are detailed in the table below:

PROCEEDINGS	*Totals*
Questioning fitness for continued registration under Securities Act Section 56	8
Cease Trade Orders	
Securities Act, Section 21 (interim)	123
Securities Act, Section 165	115
Franchises Act, Section 164	4
Denial of Exemptions	
Securities Act, Section 166	30

Prosecutions

	Counts Laid	*Convictions*	*Dismissals*	*Withdrawal or Stayed*
Securities Act				
Calgary	17	15	1	1
Edmonton	32	-	-	-
TOTAL	49	15	1	1
Franchises Act				
Calgary	4	4		
Edmonton	-	-		
TOTAL	4	4		

Certain supplementary enforcement programs undertaken by the Market Standards branch are detailed in the table below:

Supplementary Enforcement Programs	*Totals*
Insider Trading Reports: follow up enquiries initiated	7
Media Surveillance: follow up enquiries initiated	51
Investigations	347
Complaints	276

Franchises and Registration Branch

As part of the overall reorganization initiative, the Director of Franchises also assumed the duties and title of the Registrar. As a result, the Director of Franchises/Registrar oversees and administers the Registration section and the Franchises section in this dual capacity. To assist the Director of Franchises/Registrar the position of Deputy Registrar was created and staffed.

Registration Section:

The Registration section is responsible for the initial and ongoing registration of companies and individuals carrying on securities activities in Alberta as salespeople, dealers, advisers or underwriters. Through registration the Agency strives to allow only trustworthy and knowledgeable individuals to deal with the public. Dealer registrants must at all times meet financial requirements of the Securities Act and, in most instances, must obtain bonding. The Registration section is involved in policy development as it develops appropriate rules for dealing with such issues as supervision, proficiency standards and conflicts of interest.

The Registration section is also responsible for the issuance of receipts for preliminary and final prospectuses and other offering documents under the Securities Act and the Franchises Act.

The Registration section continues to provide regulatory oversight of the SROs, which are responsible for the registration, renewal of

registration and amendments of their own members and registered salespeople.

Staff of this section regularly monitor and review dealers who are not members of SROs recognized by the Board. These dealers are required to maintain the required net free capital position and exercise prudent business practices. The monitoring procedure serves as a preventive measure in ensuring compliance with Securities Act requirements and alerting the Market Standards branch as to any probable violations of the legislation.

A noteworthy achievement in this fiscal year was the development and implementation of uniform principles of regulation regarding the sale of mutual funds and the offering of full brokerage and discount brokerage services in branches of financial institutions. The adoption of the principles of regulation by the Commission has had a profound effect on the workload of the Registration section, through an increased volume of approximately 66% of applications for registration by salespeople. To meet these increased demands on the Registration section, and to improve service and reduce processing times:

a) staff resources were increased;
b) the section's organization and decision making processes were streamlined; and
c) a high priority was given to the implementation of computerized systems.

This section also experienced an increase in filings for dealer registration of 3% over the previous 1987/88 fiscal year.

Franchises Section:

Those who market franchises in Alberta are required to be registered under the Franchises Act and companies selling franchises are required to file either a prospectus or a statement of material facts, or obtain an exemption from those requirements from the Agency. The Franchises section reviews prospectuses and statements of material facts to ensure potential franchise investors are provided with information that is full, true and plain to enable them to make an informed investment decision.

During the year the Franchises section made a concerted effort to deal with the increased volume of applications received through the assistance provided by the Securities Analysis staff in reviewing franchise applications. In response, management approved a new financial analyst position for the Franchises section.

The Franchises section maintains contact with officials from other jurisdictions who are considering the implementation of franchise legislation, with a view towards the development of uniform franchise legislation. As well, staff are in contact with the franchise subcommittee of the North American Securities Administrators and the Association of Canadian Franchisors. The section also fields questions on franchise matters from government bodies and citizens of other provinces.

Administration

This branch provides administrative resources to meet the expanding responsibilities and expectations of the Agency. The branch consists of a professional resource library, a records unit and a revenue unit.

The records unit is responsible for receipt of all material filed at the Commission. To facilitate complete and timely processing of materials received by the Commission, the records system is being computerized. When the records system is fully operational, it will provide timely and accurate retrieval of information for staff and the public.

The branch publishes a weekly summary available to subscribers which contains information on Board and Agency orders, rulings, notices, new policies, insider trading activities and other matters of interest to the investing public.

Calgary Office

As part of the Commission's reorganization, increased resources were allocated to the Calgary office to better meet the needs of southern Albertans. The provision of Commission services in the two major cities in Alberta is unique for securities commissions in Canada.

The Calgary office provides Commission services to receive and clear prospectuses and other offering documents. In addition, Calgary staff are available to discuss offerings and complaints, and provide increased enforcement services to encourage compliance with the Securities Act and Franchises Act by all participants in the securities industry.

Legal Services Group

To provide legal support services to the Agency, the Attorney General's department has seconded five permanent full-time lawyers to the Agency. Four are located in Edmonton and one in Calgary.

The Legal Services group provides four basic legal services to the Agency:

1. the analysis and presentation of exemption applications heard by the Board under the Securities Act;

2. the conduct of enforcement proceedings before the Board and prosecutions in court under the Securities Act and Franchises Act;

3. advice on policy matters and proposed legislation under the Securities Act and Franchises Act; and

4. legal opinions and any other legal services as required by the Agency.

Under its legal secondment program, the Agency provides private sector law firms with the opportunity to have one of its lawyers work at the Agency for a nine or twelve month period. Participants are offered the opportunity to obtain exposure to the practical workings of the various branches within the Commission and insight into the regulatory process.

Statistical Information

Applications Received	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	Percentage of Change 87/88 to 88/89
Securities Act											
Dealer Registrations	121	132	143	127	117	119	117	107	118	106	-10.2
Amendment to Dealer Registrations	223	217	238	219	200	228	260	104	116	110	-5.2
Preliminary Prospectuses	192	270	283	231	291	131	293	649	778	354	-54.3
Renewal Prospectuses	125	115	150	116	130	139	145	159	152	154	1.3
Sundry Filings	658	765	747	1,063	1,442	1,327	1,445	781	2,730	2,881	5.5
Seller Registrations	791	978	1,175	1,177	1,428	1,455	1,561	1,181	1,170	1,725	47.4
Seller Transfers	38	40	137	234	227	223	128	98	264	179	-32.2
Orders and Rulings	458	637	752	832	857	715	774	921	1,100	1,074	-2.4
Sub-Total	2,606	3,154	3,625	3,999	4692	4,437	4,723	5,000	6,431	6,583	2.4
Franchises Act											
Prospectuses	96	121	128	105	100	99	117	121	130	143	10.0
Applications for Exemption	49	51	54	63	74	69	68	80	76	86	13.2
Miscellaneous Applications	N/A	N/A	N/A	N/A	N/A	47	34	62	44	35	-20.5
Salesman Registration	122	160	157	146	162	185	214	229	226	238	5.3
Sub-Total	267	332	339	314	336	400	433	492	476	502	5.5
TOTAL	2,873	3,486	3,964	4,313	5,028	4,837	5,156	5,492	6,907	7,085	2.6
Budget Summary	1,962,590	2,712,965	3,731,289	3,823,170	3,086,445	2,810,570	2,741,600	2,927,230	3,216,890	4,097,821	27.4
Manpower											
Permanent Positions	49	56	59	59	57	55	54	54	53	67	
Lawyers seconded from the Attorney General	1	2	3	3	3	4	4	4	4	5	
TOTAL	50	58	62	62	60	59	58	58	57	72	

Policies, Blanket Orders and Notices Implemented During the Fiscal Year

Blanket Order dated March 31, 1988
The Commission issued a blanket order that exempted the issuance of synthetic securities from the prospectus and registration requirements. The blanket order provided for a number of conditions which are required to be met in order for an issuer of this type of security to qualify for the exemption.

Blanket Order dated July 27, 1988
Generally, mutual funds organized as trusts are not required to hold annual meetings of its security holders. Section 130 of the Securities Act requires the issuer of mutual funds to hold a meeting of security holders in each calendar year. The Commission issued a blanket order to exempt this type of mutual fund from the requirements of section 130 of the Securities Act.

A.S.C. Notice 2 - Delegations of Power under Sections 14(1), 14(2) and 14(3) of the Alberta Securities Act
This Notice was amended to add paragraph 2.8 to permit the Chief of Securities Administration to accept a statement of material facts.

A.S.C. Notice 17 - Submission of Expedited Applications to the Alberta Securities Commission
The Board issued a set of guidelines to be followed when expedited applications are made to the Board for exemption orders. The guidelines are intended to outline procedures to be followed for expedited applications.

A.S.C. Notice 18 - Recognition of Daily Newspapers for Publication of Notices of Material Change
When certain material events occur, issuers are required to publish notices of such material events in newspapers of general circulation in Edmonton and Calgary. For this purpose, the Board has recognized the Edmonton Journal, Edmonton Sun, Calgary Herald and the Calgary Sun.

A.S.C. Notice 19A - Distribution of Mutual Funds by Financial Institutions - Principles of Regulation

The securities industry is experiencing major structural changes. In Canada, one principal change has resulted in the banks purchasing major investment and broker dealers. As a result, the Board and the other provincial securities commissions, through the Canadian Securities Administrators, developed and implemented guidelines to regulate the distribution of mutual funds through related financial institutions.

A.S.C. Notice 19B - Full Service and Discount Activities of Securities Dealers in Branches of Related Financial Institutions - Principles of Regulation

The Board and the other provincial securities commissions, through the Canadian Securities Administrators, developed and implemented guidelines to regulate the selling of securities other than mutual funds by dealer subsidiaries through the facilities of related financial institutions. These principles of regulation apply to both full service and discount brokerage activities of the securities dealers.